Market Watch and Opportunities – March 2011
Economic Market Analysis Division (EMAD) - Denver

The following information is intended to provide guidance to mortgagees and multifamily developers on present market conditions in the Rocky Mountain region (Colorado, Montana, North Dakota, South Dakota, Utah, and Wyoming) for proposed Section 221(d)(4) and Section 220 new construction and sub-rehab projects. This information does not apply to Section 232 applications and refinancing under Section 223f.

The information presented here will be updated as market conditions change. The name of the economist most familiar with a particular market is shown in parentheses for that area. The economists may be reached at (303) 672-5289 for further information. This information does not cover all market areas in the region; information is provided for an area if EMAD has recently reviewed the market or has current market/pipeline information. There will certainly be opportunities or potentially soft markets in areas not on either list.

Market Watch: These are areas with a large number of units in the pipeline and/or soft market conditions. We do not recommend scheduling pre-application meetings (TAP) or submitting pre-application packages (MAP) for new construction projects in these areas unless otherwise noted. Mortgagees may want to hold applications for these areas until the pipeline clears and/or market conditions improve, but additional applications should be discouraged in the short run. In addition, there may be limited opportunities for small and/or affordable projects in some of these areas, which can be addressed on a case-by-case basis.

Market Opportunities: These areas have strong markets, limited pipelines, or have recently been re-evaluated and removed from the "Market Watch" list. The market study required in these areas for TAP projects can be abbreviated and will usually focus on the submarket conditions, pipeline update, and product positioning in the market. A lengthy discussion of the overall economy, demographics, forecasts, etc. may not be required. MAP submissions should still include the full, independent study called for in the MAP Guide.

Market Areas Not Listed: EMAD does not have current market information on some areas. In some cases, our information is current but we do not have a strong opinion on the outlook for the market. In either case, we would recommend scheduling pre-applications and/or acceptance of pre-application packages in these areas, but only after receipt of a current, complete, independent market study. Whether we recommend inviting a full application in these areas will depend on our review of the study, our update/verification of market data, and a review of the information presented at the pre-application meeting or in the pre-application package.

MARKET WATCH: ***Colorado Springs, CO MSA*** (El Paso and Teller Counties) (Young)

The Colorado Springs economy has begun to improve in recent months. In the 12 months ending February 2011, however, average nonfarm employment was still down by 0.5 percent from a year earlier, to 246,200 jobs. The unemployment rate increased from 8.4 to 9.1 during the same period. Job losses began to slow in the past few months as the national and local economies improved. Rental market conditions are now more balanced compared with a year ago; vacancy rates have declined and rents have increased. According to Apartment Insights, during the first quarter of 2011 the vacancy rate was 5.8 percent, down from 7.4 percent a year earlier. The average effective monthly rent was $689, up 6.3 percent from a year ago, which represents a 19-quarter high. There are currently no large market-rate apartment projects under construction. There are 2 projects with a total of 430 units in FHA processing, and interest has been expressed for other sites. **There exists potential for additional market-rate projects, but development should proceed cautiously. The metro area remains on the "watch list" as a precaution, to emphasize uncertainty due to military deployments.** The market for 60 percent tax credit units has improved considerably, but rents remain below the maximum and are competitive with older market-rate projects. Opportunities remain, however, for tax credit developments at 50 percent of median income or lower.

MARKET WATCH: ***Denver, CO PMSA*** (Includes Adams, Arapahoe, Broomfield, Denver, Douglas and Jefferson Counties; excludes Clear Creek, Elbert, Gilpin and Park Counties) (Conner)

Nonfarm employment for the Denver area during the 12 months ending February 2011 was relatively unchanged from a year earlier, to 1,192,900 jobs. On the positive side, small year-over-year job gains in the past few months suggest that the economy has begun a turnaround. The average unemployment rate for the 12 months ending February 2011 was 9.2 percent, up from 8.7 percent a year earlier. Despite recent job losses, the Denver metro area apartment vacancy rate in the fourth quarter of 2010 was relatively unchanged from the previous quarter, at 5.4 percent, according to Apartment Insights, but it is down from a high of 8.3 percent in second quarter 2009. The average effective monthly rent has increased by $11 to $848 during the past year. The drop in vacancy rates is particularly impressive, given that roughly 6,500 new units that have been absorbed in the last 2 years. Absorption exceeded deliveries due to population growth and a decline in homeownership rates. There are 1,600 units currently under construction in the Denver area, with most of them in transit-oriented development (TOD) projects. The market is expected to continue to tighten in 2011, with few additional deliveries slated during the next 12 months. There are, however, currently 16 projects in FHA processing with a total of 2,600 units (80 percent of them in the city of Denver). The timeframe for these projects to come on line is unknown, but there exists some risk of short-term softening based on how well the projects are spread out. **Therefore**, **potential exists for additional market-rate projects in nearly all submarkets, but development should proceed cautiously given the large FHA pipeline, especially in Denver. The metro area is on the "watch list" as a precaution to emphasize project location and timing.** Although the market for 60 percent tax credit units has considerably improved, rents remain below the maximum and are competitive with older market-rate projects. Opportunities remain for subsidized or tax credit developments at 50 percent of median income or lower.

MARKET WATCH: ***Fort Collins-Loveland, CO MSA*** (Larimer County) (Young)

The Fort Collins-Loveland economy has improved during the past few months. However, during the 12 months ending February 2011, nonfarm payrolls declined by 1,300 jobs, or 1.0 percent, from a year ago to 132,400. The average unemployment rate for the 12 months ending February 2011 was 7.0 percent, up from 6.7 percent a year earlier. According to Apartment Insights, the apartment vacancy rate in Larimer County in the fourth quarter of 2010 was 3.5 percent, an improvement from the 5.1 percent recorded a year ago. Average effective monthly rents increased during the past year from $779 to $828, or 6.3 percent. The market is expected to remain stable over the next several quarters as new units come online. A large FHA-insured development in Loveland, the 303-unit Lake Vista Apartments, is approximately 20 percent complete and has begun pre-leasing. A 240-unit project is currently in FHA processing in Fort Collins, while another 252 units are in processing in Loveland. **Although there are a number of FHA projects in the pipeline, the tight rental market does provide some additional opportunities for targeted development in the area. Market conditions are monitored and updated quarterly as the pipeline begins clearing out.** Although the market for 60 percent tax credit units has considerably improved, rents remain well below the maximum and are competitive with older market-rate projects. There are, however, opportunities for subsidized or tax credit developments at 50 percent of median income or lower.

MARKET WATCH: *Grand Junction, Colorado* (Mesa County) (Young)

Nonfarm employment in the Grand Junction metro area averaged about 59,000 during the 12 months ending February 2011, a decrease of 1,500 jobs, or 2.5 percent, from a year earlier. The unemployment rate for the 12 months ending February 2011 averaged 9.9 percent, up from 9.3 percent a year earlier. Mesa County has experienced employment losses related to a cutback in energy exploration and residential construction. The rental market was very tight in 2007 and 2008, with vacancy rates often below 2 percent, but rental market conditions have softened considerably in the past 2 years. According to the Colorado Division of Housing (DOH), in fourth quarter 2010 the rental vacancy rate in Grand Junction was 7.5 percent, down from 13.2 percent a year earlier. Average asking monthly rents decreased during the same period, from $647 to $617. One 48-unit FHA project is currently under construction, and another 48-unit project is in FHA processing. In addition, there is a 112-unit, age-restricted facility, in FHA processing, although it will not compete directly with other market-rate developments. **For now, new large market-rate developments are discouraged in Mesa County until it becomes clear how the market progresses over the next few quarters.**

MARKET WATCH: *Pueblo, Colorado MSA* (Pueblo County) (Young)

The Pueblo economy has improved during the past few months, yet employment remained unchanged for the 12 months ending February 2011. Nonfarm employment averaged about 57,300 jobs showing little change from a year earlier. The average unemployment rate for the 12 months ending February 2011 was 10 percent, up from 8.8 percent a year ago. Rental vacancy rates have stayed relatively static in the past year, a result of job losses as wells as competition from previously foreclosed homes, many of which are now owned by investors. The State DOH survey for fourth quarter 2010 reported a vacancy rate of 10.2 percent, down from 12.2 percent a year ago. The average monthly rent remained relatively unchanged at $554 during same period. For projects built after 1980 the vacancy rate is somewhat lower. One FHA-insured market-rate development with 112 units is completed and in the lease-up stage, and another 92-unit project is in FHA processing. **For now, until it becomes clear how market conditions progress, additional large market-rate developments are discouraged**. The 60 percent tax credit rental units currently on the market are increasingly competing with mid-range market-rate units. Some opportunities remain, however, for tax credit developments at 50 percent of median income or lower.

MARKET WATCH: *Heber & Park City, Utah* (Wasatch & Summit Counties) (Thornton)

Economic conditions in the Wasatch-Summit Housing Market Area (HMA) remain weak. Resident employment declined by 100, or 0.3 percent, to an average of 29,400 during the 12 months ending February 2011. From 2002 to 2006, resident employment in the Summit-Wasatch HMA increased by an average of 1,300 a year, or 5.1 percent, making it one of the fastest growing economies in Utah. Leisure and hospitality is the dominant employment sector in the HMA; the top three private employers are Deer Valley Resort, The Canyons Resort, and Park City Mountain Resort. For the 12 months ending February 2011 the unemployment rate averaged 7.8 percent, up from 7.1 percent during the previous 12 months. Despite the weak economy, the rental market is currently tight due to the limited supply of new apartments that have come on line since 2000. The market is expected to become more balanced as new units in FHA processing enter the market. There are two applications in FHA processing: a 148-unit project in Wasatch County and a 100-unit project in Summit County. There have been other inquiries for Summit County. **Although the market is currently tight, further large market-rate developments are**

discouraged in Wasatch County until the pipeline begins to clear. However, there is some limited opportunity in Summit County, especially for tax credit developments.

MARKET WATCH: *Salt Lake City, Utah* (Salt Lake County) (Thornton)

Economic conditions have improved, but remain weak in the Salt Lake County area. During the 12 months ending February 2011, resident employment increased by 2,200 jobs, or 0.4 percent, to 608,700 jobs. The average unemployment rate increased from 6.6 to 7.2 percent during the same period. Despite the relatively flat economy, a large number of new rental units coming online, and a surplus of unsold homes being temporarily rented, the rental market has remained balanced. According to Reis, Inc. the fourth quarter 2010 vacancy rate in Salt Lake County fell to 6.6 percent, down from 8.6 percent a year earlier**.** During the same period, the average apartment rent increased slightly, from $739 to $747**.** More than 2,400 market-rate rental units have been completed so far in 2010, and an addition 1,300 units are under construction. EMAD has received inquiries on 21 projects, with a total of 3,700 units, in Salt Lake County, along with 13 projects with 2,100 units currently in FHA processing. The market is expected to remain balanced in 2011, but could experience some short-term softening in 2012 when projects in processing come on line. **As a result, additional development is discouraged in Salt Lake County until the pipeline clears; however, there is limited potential for market-rate development for a few submarkets in the county, where construction and pipeline activity have been more limited.**

MARKET WATCH: *St. George, Utah MSA* (Washington County) (Thornton)

Economic conditions remain weak in the St. George area. Nonfarm employment declined by 700 jobs, or 1.5 percent, to 45,800 jobs during the 12 months ending February 2011. Even with a significant slowdown in apartment development over the past several years, the rental market in St. George is soft, with the current vacancy rate estimated at about 12 percent. Single-family home sale prices have been declining for 4 years and the year-to-date median price is $160,000 through February 2011, down 11.1 percent from a year earlier. Sales volume is up by 15 percent over the same period but much of the sales activity has been from foreclosures or REO transactions. The soft sales market has increased the number of single-family homes and condominiums being offered as rental units, exacerbating the softness in the rental market. **In light of current conditions, large market-rate projects are strongly discouraged until the market begins to stabilize**.

MARKET WATCH: *Vernal, Utah* (Uintah County) (Thornton)

Economic conditions continued to weaken in Uintah County during the 12 months ending February 2011. Resident employment decreased by 100, or 0.5 percent, to 15,800, while the unemployment rate increased from 6.7 to 8.0 percent during the same period. The county has experienced employment losses related to a cutback in energy exploration and residential construction. According to the Utah Association of Realtors®, the year-to-date median sales price in Uintah County dropped by 11.3 percent in February 2011 compared with same period a year earlier, to $137,500. Closings have increased over the same period but a large portion of the volume has come from foreclosures or REO transactions. Although the rental market remains balanced, two Vernal projects in FHA processing will meet all of the expected demand for at least the next 3 years: a 128-unit project on the west side of the city and a 96-unit project on the south side of the city. **In light of current market conditions and the development pipeline, additional market-rate projects are strongly discouraged until the pipeline clears.**

MARKET OPPORTUNITY: *Boulder, Colorado* (Boulder County) (Conner)

Nonfarm employment in Boulder County for the 12 months ending February 2011 increased 0.1 percent from a year earlier, to 159,000 jobs. The average unemployment rate for the 12 months ending February 2011 was 6.5 percent, which was largely unchanged from a year earlier. Boulder continues to have the lowest unemployment rate among metro areas in Colorado. According to Apartment Insights, the apartment vacancy rate for Boulder County was 4.1 percent in the first quarter of 2011, down from 5.5 percent a year earlier. In the south part of the city of Boulder, which includes the CU campus, the vacancy rate was 4.2 percent, compared with 4.4 percent a year earlier. The northern part of the city had a vacancy rate of 3.2 percent, a decline of 1 percentage point from a year ago. Northern Boulder currently has the lowest reported vacancy rate among all submarkets in the Denver-Boulder region. The apartment vacancy rate in Longmont was 3.3 percent, down significantly from the 6.9 percent rate of a year ago. Average monthly rents for Boulder County were about $955 in first quarter 2011, up from about $900 a year earlier.

A number of multifamily projects are currently coming online, are under construction, or are in the development pipeline for Boulder County. One market-rate project under construction, the FHA-insured Prana Apartments in Lafayette, with 254 units, is nearing completion and has begun leasing. The 240-unit Residences at 29th Street in Boulder is 60 percent completed and is expected to come on line by the fall of 2011. Another project, the Violet Crossing Apartments in Boulder, with a possible 78 units, is currently under review. **Because of the number of current and planned projects, any additional large-scale development over the next 12 months should be pursued cautiously, especially in the Boulder city area. Nevertheless, continued opportunities exist for market-rate and tax credit projects over the long-term.**

MARKET OPPORTUNITY: *Glenwood Springs, CO* (Garfield County) (Young)

The rental market in Garfield County has been extremely tight in recent years. Previously strong employment growth and a lack of new construction put downward pressure on apartment vacancy rates. According to a survey by the Colorado Division of Housing, in the third quarter of 2010 the rental vacancy rate in Glenwood Springs was 5.5 percent, up from 3.6 percent a year earlier. The average monthly rent decreased from $863 to $834 during the same period. Employment growth has been stagnant, however, during the past 12 months. Employment expanded in some sectors, but offsetting job losses have occurred in the energy exploration industry in western Garfield County. The unemployment rate for the 12 months ending February 2011 averaged 8.8 percent, up from 6.6 percent a year earlier. As a result of the slowing economy, rental market conditions may begin to ease slightly. **Nevertheless, there continue to be opportunities for market-rate and tax credit rental development in the area.**

MARKET OPPURTUNITY: *Greeley, Colorado MSA* (Weld County) (Young)

Economic conditions in the Greeley metro area are currently somewhat soft. For the 12 months ending February 2011 nonfarm employment averaged about 78,000 jobs, a decline of 200 jobs, or 0.3 percent, from the previous 12 months. The unemployment rate for the 12 months ending February 2011 averaged 9.6 percent, up from 8.3 percent a year earlier. Despite the slower economy, according to Apartment Insights first quarter survey, the apartment vacancy rate for Weld County was 4.3 percent, down from 7.9 percent a year earlier. In addition, the average effective monthly rent increased by $53 during the same period, to $696. There are no projects currently in the FHA pipeline, although there has been recent interest in the market. **For the time being, market-rate developments and 60 percent tax credit projects should proceed cautiously until it becomes clear how the economy and rental market conditions evolve over the next few quarters. Nevertheless, opportunities exist for targeted developments.** Tax credit opportunities are generally limited to projects at 50 percent of median income or lower.

MARKET OPPORTUNITY: *Williston, North Dakota* (Williams County) (Young)

The economy of the Williston micropolitan area remains strong. Resident employment in Williams County for the 12 months ending February 2011 was down 4.3 percent from a year ago, to about 14,700; however, the unemployment rate remains very low, at 1.9 percent, down from 2.7 percent a year earlier. This is even below the 3.9 percent unemployment rate for the state as a whole. Median income in the second quarter of 2010 was $55,000 for Williams County**,** up from $45,801 in 2008. The current rental market in Williston is very tight, with the vacancy rate estimated at about 1 percent or less. One project is currently in FHA processing for 104 units, and an additional 123 units are planned to be completed over the next 3 years. **In light of current market conditions, there is market rate and tax credit development potential for smaller, targeted projects in this area.** Some caution may be warranted, however. Williston is a small housing market, and a rapid slowdown in energy-related activity could cause rental conditions to deteriorate suddenly.

MARKET OPPORTUNITY: *Rapid City, South Dakota* (Meade and Pennington Counties) (Thornton)

The economy of the Rapid City metropolitan area has been somewhat weak in the past year. Resident employment averaged 60,900 for the 12 months ending February 2011, a decline of approximately 100, or 0.2 percent, from the previous 12-month period. The unemployment rate averaged 4.7 percent, down from 4.8 percent a year ago and well below the national unemployment rate. However, the rental market remains somewhat tight, with an estimated vacancy rate of 5 percent. The rental market has tightened slightly in recent years, due to limited apartment construction activity and a slight increase in personnel at Ellsworth AFB. An FHA-insured 180-unit project in Box Elder (Pennington County) is currently 45 percent complete and a 60-unit tax credit project is in FHA processing. **As a result of the tighter rental market, there exists some potential for limited development of market-rate and tax credit projects in the area.**

MARKET OPPORTUNITY: *Ogden-Clearfield, Utah MSA* (Davis, Morgan, and Weber) (Thornton)

Economic conditions in the Ogden-Clearfield metropolitan area are showing limited signs of improvement. During the 12 months ending February 2011, resident employment increased by 200 jobs, or 0.1 percent, from a year earlier. The unemployment rate, however, rose by 0.6 to 7.4 percent over the same period. With slightly improving economic conditions, the rental market has improved as of the fourth quarter of 2010, and conditions are now balanced, compared with a softer market a year ago. According to Reis, Inc., in the fourth quarter of 2010, the apartment vacancy rate in Weber County was 5.7 percent, down from 8.2 percent a year earlier. The Davis County apartment vacancy rate was 5 percent, down from 5.5 percent a year earlier. The decline in vacancies was primarily due to strong household growth coupled with a decline in multifamily building activity. As of the fourth quarter 2010, the average effective apartment rent for Davis County was up 1 percent to $678 and Weber County increased 2.5% to $642 compared to a year earlier. In Davis County, a total of 550 units in two projects are in FHA processing and EMAD has received inquiries on 3 additional projects with a total of about 200 units. Developer interest has been expressed in the cities of Bountiful, Layton, Woods Cross, Farmington, and North Salt Lake. **Due to the FHA pipeline in Davis County, large market-rate projects should be pursued cautiously, although there remains some potential for small market-rate projects for select submarkets in southern Davis County and all of Weber County.** Conditions should be monitored over the next few quarters to see how local housing markets continue to respond to the slowing economy.

MARKET OPPORTUNITY: *Provo-Orem, Utah* (Utah County) (Thornton)

Although employment growth has been mixed, strong population growth and a slowdown in apartment construction activity since 2006 have allowed the rental market to remain balanced. During the 12 months ending February 2011 nonfarm payrolls increased by 800 jobs, or 0.5 percent, compared with a year earlier, to 178,200 jobs. According to Reis, Inc., the fourth quarter 2010 vacancy rate in Utah County decreased to 4.7 percent, down from 5.5 percent a year ago. During the same period, the average apartment asking rent remained relatively unchanged at $772**.** EMAD has received inquiries on 6 projects with a total of about 1,300 units in Utah County, including a 340-unit project in Lehi, a 240-unit Saratoga Springs project, and a 120-unit Payson project which are currently in FHA processing. Developer interest has been expressed for the cities of Highland, Provo, and Saratoga Springs. **Although development should be pursued cautiously, given current employment trends and the number of projects in the pipeline, there remain some opportunities for market-rate and tax credit developments in select submarkets.** Conditions should be monitored over the next few quarters to observe how local housing markets respond to the slowing economy.

MARKET OPPORTUNITY: *Tooele, Utah* (Tooele County) (Thornton)

Economic conditions in Tooele County recently turned negative, following decades of strong growth. During the 12 months ending February 2011, resident employment averaged 25,600, down 0.4 percent compared with the previous 12 months. The average unemployment rate rose from 7.4 percent to 7.8 percent during the same period. According to the Utah Association of Realtors®, the year-to-date median sales price in Tooele County dropped by 10.3 percent in February 2011 compared with the year-to-date February 2010, to $144,900. Sales volume has increased over the same period but 59 percent of the volume has come from foreclosures or real-estate owned (REO) sales. The Tooele County rental market is currently tight with an estimated rental vacancy rate of 5 percent. There is one 85-unit FHA-insured project nearing completion and one 131-unit in FHA processing. **Consequently, because the market is relatively small there is opportunity for a modest sized market-rate development in Tooele.** Local conditions should be continuously reassessed over the next few quarters to see how the housing market responds to the weaker economy.

MARKET OPPORTUNITY: *Casper, Wyoming* (Natrona County) (Thornton)

The rental market in Casper has eased from the tight conditions of a year ago, due to employment losses. Residential employment declined to 37,300. The average unemployment rate for the 12 months ending February 2011 was 7.0 percent, up from 7.2 percent a year earlier. Nevertheless, net in-migration to the area has remained strong since 2004. According to a survey by the Wyoming Community Development Authority, Natrona County reported a rental vacancy of 4.6 percent for the second quarter, a 0.2 percentage point decrease from a year earlier. Currently, a 200-unit market-rate development is currently under construction, and is approximately 60 percent complete. Another 52-unit project is currently in FHA processing. **Nevertheless, there continue to exist some targeted opportunities for limited market-rate and tax credit development in Natrona County.**

MARKET OPPORTUNITY: *Rock Springs, Wyoming* (Sweetwater County) (Thornton)

Resident employment in Sweetwater County for the 12 months ending February 2011 was down 0.5 percent from the previous 12 months, to 21,800 jobs, and the unemployment rate decreased from 7.2 percent to 6.3 percent during the same period. In-migration of households to the area has continued, and the rental market in the county remains balanced. According to the Wyoming Community Development Authority, Sweetwater County reported a rental vacancy of 5.8 percent for the fourth quarter of 2010, a 1.3 percentage point decrease from a year earlier. A 200-unit FHA-insured and a 200 plus non-FHA market-rate projects have recently been completed and leased up. Rock Springs has been temporarily taken off the Watch List because of the strong absorption of these projects that have recently come on line. However, market-rate development should proceed cautiously due to the fluctuations in growth that are endemic to energy-producing areas such as this. **For the time being, the market is open for modest-sized market-rate project**.